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SOYBEAN PRICES: MISSION ACCOMPLISHED?

The average spot cash price of soybeans in central Illinois reached a 2002 post-harvest low of $5.01 on October 9, 2002. That price reached a high of $6.145 on April 17, 2003, and then declined by nearly $.20 by April 25, 2003. The higher prices since mid-January have been driven primarily by the fast pace of U.S. exports and export sales, particularly to China. As of April 24, 2003, cumulative shipments of U.S. soybeans for the current marketing year totaled 909.5 million bushels, according to the USDA's *Export Inspections* report. Cumulative exports were 3 percent larger than at the same time last year. Unshipped sales as of April 17 stood at 98 million bushels, 2.5 percent more than outstanding sales of a year ago. Shipments to China through April 17 totaled 269 million bushels, 74 percent larger than cumulative shipments of a year ago. China accounted for 30 percent of U.S. soybean exports and eclipsed the European Union as the largest buyer of U.S. soybeans.

Cumulative shipments plus outstanding sales of U.S. soybean as of April 17 totaled 999 million bushels. For the year, the USDA officially projects exports at 995 million bushels. However, accounting for the discrepancy between USDA and Census Bureau estimates of exports to date, the USDA has included an extra 10 million bushels in the projection of residual use of soybeans this year. In effect, the USDA has projected exports at 1.005 billion bushels. That is still 58 million less than exports during the 2001-02 marketing year.

The post-harvest trading range in the cash price of soybeans in central Illinois has been $1.135. That is within the experience of the past 30 years, although at the low end of the range that has varied from $.615 (1985-86) to $5.205 (1976-77). The recent price increase has accomplished the mission of establishing a trading range within the historical experience. It is still unclear, however, if cash soybean prices have established a post-harvest marketing year high. In the short run, the answer to that question may be determined primarily by the pace of exports and export sales. Sales and shipments are declining seasonally, but with 18 weeks left in the marketing year, the pace will have to decline sharply if the USDA projection is not to be exceeded. Typically, cumulative export sales at the end of the marketing year are 3 to 5 percent larger than shipments for the year, with the excess being rolled into the new crop year. In addition, in some years, cancellation of sales show up late in the marketing year. As a result, the rate of export sales over the next few weeks is important, but the rate of shipments may be a better indicator of export demand.

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Using a projection of 1.005 billion bushels of exports for the year, shipments need to average only 4.64 million bushels per week for the remainder of the year to reach the projected level. During the last 18 weeks of the 2001-02 marketing year, shipments averaged 10.65 million bushels per week. Shipments over the past 5 weeks have ranged from 11.1 to 13.3 million bushels per week. A continuation of a high rate of exports would suggest prices need to move higher to slow the rate of consumption. If the pace slows sharply in the next few weeks, further price rationing may not be required.

Longer term, soybean prices will be influenced by the prospects for the 2003 U.S. soybean crop. Producers have revealed plans to reduce U.S. soybean acreage in 2003 and the fairly rapid pace of corn planting may lead some to believe that soybean acreage will be below March intentions. Average yield, however, will be the key to crop size and it is too early to project a yield very different from trend value.

While old crop prices have satisfied the historical trading range test, November 2003 futures have not. That contract has a life of contract low of $4.53 and a high of $5.43. The high was established in September 2002, but the contract traded to $5.40 on April 22, 2003. Two observations can be made about the price range. First, the range to date of $.90 is very small. The smallest range in “modern” price history was $.9125 for the 1986 contract. The range for the 1999 through 2002 contracts (a period of generally low prices) varied from $1.625 to $2.7475. Second, the high to date of $5.43 is very low. While the high price for the November contract has been trending lower over the past 7 years (from $8.25 for the 1996 contract to $5.91 for the 2002 contract), a new high for the 2003 contract would not be a surprise. The life of contract low of $4.53 is within the experience of recent history ($5.85 for the 1996 contract to $4.05 for the 1999 contract).

It seems likely that the trading range of November 2003 futures will be expanded and that the expansion will come from a new life of contract high. It is not clear when over the next 6 months a new high would come, or what factors would contribute to the higher prices, although U.S. crop concerns would be one candidate.

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